

Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 EA-10 IO-13 ISO-00 AGRE-00 CEA-01
CIAE-00 COME-00 DODE-00 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 NSC-05 PA-01 CTME-00 AID-05
SS-15 STR-07 ITC-01 TRSE-00 ICA-11 SP-02 SOE-02
OMB-01 DOE-15 /136 W
-----089433 042357Z /64

R 040252Z AUG 78
FM AMCONSUL HONG KONG
TO SECSTATE WASHDC 2186
INFO AMEMBASSY BANGKOK
AMEMBASSY BRUSSELS
AMEMBASSY MANILA
AMEMBASSY SEOUL
AMEMBASSY TAIPEI
AMEMBASSY TOKYO
USMISSION GENEVA

C O N F I D E N T I A L HONG KONG 10356

ALSO FOR USEEC

E.O. 11652: GDS
TAGS: ETRD, HK, TW
SUBJECT: NON-RUBBER FOOTWEAR - HONG KONG

REF: STATE 195575

1. I HAD AN OPPORTUNITY ON AUGUST 2 TO DISCUSS THE NON-RUBBER
FOOTWEAR PROBLEM BRIEFLY WITH THE ACTING DIRECTOR OF TRADE,
INDUSTRY AND CUSTOMS, WILLIAM DORWARD, AND THE DIRECTOR OF
TRADE, LAWRIE MILLS. BOTH REITERATED THE HARD LINE POSITION
WHICH MILLS HAD TAKEN WITH STR NEGOTIATOR SMITH DURING THEIR
DUSCISSION OF THIS ISSUE IN MID-JULY. DORWARD EXPRESSED AN
UNDERSTANDING OF THE PROBLEMS CONFRONTING THE U.S., SPECIFICALLY
OUR CONCERN FOR THE POSSIBILITY OF A DIVERSION OF TAIWAN-ORIGIN
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FOOTWEAR COMPONENTS THROUGH HONG KONG AND TO MEET OUR EQUITY
OBLIGATIONS WITH RESPECT TO KOREA AND TAIWAN. HE ALSO
UNDERSTOOD THE PRESSURES GENERATED BY THE U.S. SHOE INDUSTRY
AS A RESULT OF A SURGE OF IMPORTS FROM HONG KONG. HE INSISTED,
HOWEVER, THAT THE U.S. APPROACH TO THESE PROBLEMS, WHICH HE
DESCRIBED AS "DASHING ABOUT PUTTING OUT FIRES," SINGLING OUT
CERTAIN COUNTRIES, IS LEIKLY TO BE INEFFECTIVE AND UNFAIR.

DORWARD ARGUED THAT IF THERE IS A SOLID FINDING THAT IMPORTS ARE DOING DAMAGE TO THE AMERICAN SHOE INDUSTRY, THEN THE USG SHOULD DEAL WITH THIS PROBLEM "ACROSS THE BOARD" IN A MANNER WHICH WOULD AFFECT ALL MAJOR SUPPLIERS. HE AND MILLS REPEATED THE ARGUMENT WHICH MILLS HAD MADE TO SMITH THAT THE U.S. SHOULD FIRST ATTEMPT TO REGULATE THE LARGER SUPPLIERS SUCH AS ITALY RATHER THAN LEANING ON HONG KONG WHICH RANKS ONLY SIXTH AS A SUPPLIER OF NON-RUBBER FOOTWEAR TO THE U.S. DORWARD COMMENTED THAT THE U.S. HESITATES TO MOVE AGAINST ITALY ON THIS ISSUE BECAUSE OF THE UNFAVORABLE REACTION WHICH THIS WOULD EVOKE FROM THE EUROPEAN COMMUNITY. (HE ADDED THAT A SIMILAR SITUATION EXISTS IN THE CASE OF WOOL SUITS WHERE FRANCE IS A MUCH LARGER SUPPLIER THAN HONG KONG AND YET FOR SIMILAR REASONS THE U.S. HESITATES TO MOVE AGAINST FRANCE.) DORWARD ALSO REFERRED TO WHAT HE CONSIDERED A "DICHOTOMY" IN THE U.S. APPROACH TO THE FOOTWEAR PROBLEM INSISTING THAT THE U.S. IS TAKING A DIFFERENT POSITION ON THE ISSUE IN THE MULTILATERAL TRADE NEGOTIATIONS THAN IT IS TAKING WITH HONG KONG.

2. I ASKED MR. MILLS WHETHER THERE WAS ANY SUBSTANCE TO THE REPORTS WHICH HAD APPEARED EARLIER IN THE PRESS THAT THE HONG KONG FOOTWEAR INDUSTRY HAD URGED THE HKG TO INSTITUTE A CERTIFICATE OF ORIGIN SYSTEM. MR. MILLS ACKNOWLEDGED THAT THE HONG KONG FOOTWEAR INDUSTRY HAD TAKEN SUCH A POSITION AND I INFERRED FROM HIS REMARKS THAT SUCH A REQUEST HAD BEEN MADE TO THE HKG. AS HE HAD IN HIS DISCUSSION WITH SMITH, MILLS INSISTED THAT THE HONG KONG GOVERNMENT HAS NO

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AUTHORITY TO INSTITUTE SUCH A SYSTEM. DORWARD ADDED THAT TO DO SO WOULD SET A BAD PRECEDENCE FOR HONG KONG'S FOOTWEAR TRADE WITH OTHER COUNTRIES AND ONE WHICH MIGHT ULTIMATELY HAVE ADVERSE CONSEQUENCES FOR OTHER HONG KONG INDUSTRIES SUCH AS ELECTRONICS AND TOYS.

3. I EXPRESSED THE HOPE THAT SOME SOLUTION TO THE NON-RUBBER FOOTWEAR PROBLEM COULD BE WORKED OUT WHEN ASSISTANT SECRETARY LANDE VISITS HONG KONG LATER THIS MONTH. I MADE THE POINT THAT NO MATTER HOW MUCH LOGIC THERE MIGHT BE TO DORWARD'S VIEW THAT THE U.S. SHOULD DEAL WITH THIS PROBLEM "ACROSS THE BOARD," THE ISSUE HAS ARISEN WITH SPECIFIC REFERENCE TO THE REMARKABLE SURGE IN HONG KONG'S FOOTWEAR EXPORTS TO THE U.S. AND OUR GOVERNMENT CANNOT APPEAR INDIFFERENT TO THE PRESSURES WHICH THIS HAS GENERATED WITHIN OUR OWN INDUSTRY. I POINTED OUT THAT THE CARTER ADMINISTRATION IS MAKING A DETERMINED EFFORT TO RESIST THE MOUNTING WAVE OF PROTECTIONISM IN THE AMERICAN CONGRESS, INDUSTRY, AND LABOR CIRCLES. I ALSO NOTED THAT OUR TRADE NEGOTIATORS AND OTHER OFFICIALS VIEW HONG KONG'S PROBLEMS SYMPATHETICALLY AND NOTED THEIR EFFORTS TO DEFEND THE EXISTING TEXTILE AGREEMENT AGAINST PRESSURES FOR REVISION. I SAID THAT IT WAS IMPORTANT THAT OUR NEGOTIATORS BE ABLE

TO DEMONSTRATE THAT WE CAN RESOLVE SUCH PROBLEMS AS THE FOOTWEAR ISSUE THROUGH NEGOTIATIONS WITH THE HKG.

4. MILLS RESPONDED THAT AT THEMOMENT HE COULD SEE NO SOLUTION TO THE FOOTWEAR PROBLEM. HE DID CONCEDE, HOWEVER, THAT SOME WAY OF DEALING WITH THE PROBLEM MIGHT EMERGE FROM TALKS WITH LANDE, ADDING THAT THIS WILL BE THE FIRST TIME THE TWO SIDES HAVE HAD AN OPPORTUNITY TO EXPLORE THE PROBLEM IN DEPTH.

5. AT THE CONCLUSION OF OUR DISCUSSION I REMARKED TO DORWARD THAT I APPRECIATED THIS OPPORTUNITY TO DISCUSS SUCH MATTERS WITH HIM AND MILLS, SINCE IT HELPED ME HAVE A BETTER UNDERSTADNING OF THE ISSUES AT STAKE ON BOTH SIDES. DORWARD RESPONDED BY SUGGESTING THAT AT SOME LATER DATE WE GET TOGETHER FOR AMORE CONFIDENTIAL

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DETAILED DISCUSSION OF HONG KONG GOVERNMENT'S POLICIES AND OF THE U.S.-HONG KONG TRADE RELATIONSHIP.
I, OF COURSE, READILY AGREED.

6. COMMENT: CERTAINLY IN THIS BRIEF DISCUSSION NETIETHER DORWARD OR MILLS INDICATED ANY GIVE IN THEIR POSITION ON THIS ISSUE AND THERE SEEMS TO BE LITTLE GROUND FOR OPTIMISM THAT LANDE WILL BE ABLE TO ACHIEVE A BREAKTHROUGH. THE HARD-NOSE ATTITUDE WHICH DORWARD AND MILLS TAKE SEEMS TO REFLECT LESS A FAILURE TO UNDERSTAND OUR PROBLEM THAN A CONVICTION THAT THE SOLUTION LIES SOMEWHERE OTHER THAN HONG KONG. WE MAY BE ABLE TO APPEAL TO THEM ON THE BASIS OF THE VALUE, GIVEN THE IMPORTANCE OF THE U.S. MARKET TO HONG KONG, OF DEMONSTRATING A COOPERATIVE ATTITUDE IN RESOLVING OUR TRADE PROBLEMS, BUT I SUSPECT IT'S GOING TO BE HARD SLEDDING.

7. IN A SEPARATE CONVERSATION WITH ANOTHER CONGEN OFFICER ON THE SUBJECT MILLS REPEATEDLY REFERRED TO GATT AND SPECIFICALLY TO ATICLE 19 SAYING THESE ARE THE "RULES OF THE GAME" FOR SITUTATIONS OF THIS KIND AND THAT THE US SHOULD FOLLOW THEM.
SHOESMITH

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 jan 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: RUBBER, FOOTWEAR, NEGOTIATIONS, TRADE AGREEMENTS
Control Number: n/a
Copy: SINGLE
Draft Date: 04 aug 1978
Decaption Date: 01 jan 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 20 Mar 2014
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1978HONGK10356
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Expiration:
Film Number: D780320-0124
Format: TEL
From: HONG KONG
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1978/newtext/t19780899/aaaadesa.tel
Line Count: 158
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: b6fc356a-c288-dd11-92da-001cc4696bcc
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 78 STATE 195575
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27 apr 2005
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 1838729
Secure: OPEN
Status: NATIVE
Subject: NON-RUBBER FOOTWEAR - HONG KONG
TAGS: ETRD, HK, TW
To: STATE
Type: TE
vdkgvwkey: odhc://SAS/SAS.dbo.SAS_Docs/b6fc356a-c288-dd11-92da-001cc4696bcc
Review Markings:
Sheryl P. Walter
Declassified/Released
US Department of State
EO Systematic Review
20 Mar 2014
Markings: Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014